

**DEPARTMENT OF INSURANCE, FINANCIAL  
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

P.O. Box 690, Jefferson City, Mo. 65102-0690

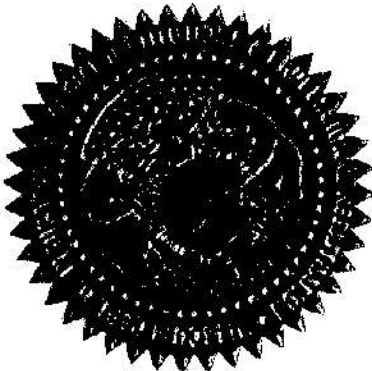
RE: Examination Report of American Life and Health Insurance Company as of December 31, 2007

**ORDER**

After full consideration and review of the report of the financial examination of American Life and Health Insurance Company for the period ended December 31, 2007, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER American Life and Health Insurance Company, to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with, each item mentioned in the General Comments and/or Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this May 14, 2009.



John M. Huff, Director  
Department of Insurance, Financial Institutions  
and Professional Registration

REPORT OF  
ASSOCIATION FINANCIAL EXAMINATION  
**AMERICAN LIFE AND HEALTH  
INSURANCE COMPANY**

AS OF  
DECEMBER 31, 2007

**FILED**  
MAY 24 2009  
DIRECTOR OF INSURANCE &  
FINANCIAL INSTITUTIONS &  
PROFESSIONAL REGISTRATION



STATE OF MISSOURI  
DEPARTMENT OF INSURANCE,  
FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION  
JEFFERSON CITY, MISSOURI

## TABLE OF CONTENTS

<b>SCOPE OF EXAMINATION.....</b>	<b>1</b>
PERIOD COVERED.....	1
PROCEDURES.....	2
COMMENTS-PREVIOUS EXAMINATION.....	2
<b>HISTORY.....</b>	<b>4</b>
GENERAL.....	4
CAPITAL STOCK.....	5
DIVIDENDS.....	5
MANAGEMENT AND CONTROL.....	5
CONFLICT OF INTEREST.....	6
CORPORATE RECORDS.....	7
ACQUISITIONS, MERGERS AND MAJOR CORPORATE EVENTS.....	7
SURPLUS DEBENTURES.....	7
<b>AFFILIATED COMPANIES.....</b>	<b>7</b>
HOLDING COMPANY, SUBSIDIARIES AND AFFILIATES.....	7
ORGANIZATIONAL CHART.....	8
INTERCOMPANY TRANSACTIONS.....	8
<b>FIDELITY BOND AND OTHER INSURANCE.....</b>	<b>10</b>
<b>PENSION, STOCK OWNERSHIP AND INSURANCE PLANS.....</b>	<b>10</b>
<b>STATUTORY DEPOSITS.....</b>	<b>10</b>
DEPOSITS WITH THE STATE OF MISSOURI.....	10
DEPOSITS WITH OTHER STATES.....	11
<b>INSURANCE PRODUCTS AND RELATED PRACTICES.....</b>	<b>11</b>
TERRITORY AND PLAN OF OPERATIONS.....	11
POLICY FORMS & UNDERWRITING.....	11
ADVERTISING & SALES MATERIAL.....	11
TREATMENT OF POLICYHOLDERS.....	11

<b>REINSURANCE.....</b>	<b>11</b>
GENERAL.....	11
ASSUMED .....	12
CEDED .....	12
<b>ACCOUNTS AND RECORDS.....</b>	<b>12</b>
INDEPENDENT AUDITOR .....	12
APPOINTED ACTUARY .....	12
<b>FINANCIAL STATEMENTS .....</b>	<b>13</b>
ANALYSIS OF ASSETS .....	14
LIABILITIES, SURPLUS AND OTHER FUNDS .....	14
STATEMENT OF INCOME .....	15
CAPITAL AND SURPLUS ACCOUNT.....	15
<b>NOTES TO THE FINANCIAL STATEMENTS.....</b>	<b>16</b>
<b>EXAMINATION CHANGES.....</b>	<b>16</b>
<b>GENERAL COMMENTS AND/OR RECOMMENDATIONS .....</b>	<b>16</b>
<b>SUBSEQUENT EVENTS .....</b>	<b>16</b>
<b>ACKNOWLEDGMENT .....</b>	<b>17</b>
<b>VERIFICATION .....</b>	<b>17</b>
<b>SUPERVISION.....</b>	<b>18</b>

Downers Grove, IL  
March 25, 2009

Honorable Alfred W. Gross, Commissioner  
Virginia Bureau of Insurance  
Chairman, (E) Financial Condition Committee, NAIC

Honorable Merle Scheiber, Commissioner  
South Dakota Division of Insurance  
Midwestern Zone Secretary

Honorable John M. Hult, Director  
Missouri Department of Insurance, Financial  
Institutions and Professional Registration  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Gentlemen:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

**American Life and Health Insurance Company**

hereinafter referred to as such, as the "Company" or as "ALHIC." Its administrative office is located at 3200 Highland Avenue, Downers Grove, Illinois 60515, telephone number (630) 737-5750. This examination began on September 8, 2008 and concluded on the above date.

**SCOPE OF EXAMINATION**

**Period Covered**

The prior full scope association financial examination of American Life and Health Insurance Company was made as of December 31, 2005 and was conducted by examiners from the State of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC) with no other zone participating.

The current full scope association financial examination covers the period from January 1, 2006 through December 31, 2007 and was conducted by examiners from the State of Missouri, representing the Midwestern Zone of the NAIC, with no other zone participating.

This examination was conducted concurrently with the examination by the Missouri Department of Insurance, Financial Regulation and Professional Registration (DIFR) of Cambridge Life Insurance Company (CLIC), an affiliate of ALHIC domiciled in the State of Missouri and the Texas Department of Insurance (Texas DOI) examination of First Health Life and Health Insurance Company (FHLHC), an affiliate of ALHIC domiciled in the State of Texas.

This examination also included the material transactions and/or events occurring subsequent to the examination date which are noted in this report.

### **Procedures**

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration and statutes of the State of Missouri prevailed.

The examiners relied upon information supplied by the Company's independent auditors, Ernst & Young, LLP of Baltimore, Maryland, for their audit covering the period January 1, 2007 through December 31, 2007. This information included, but was not limited to, investment confirmations and fraud risk assessments.

### **Comments-Previous Examination**

Listed below are the comments, recommendations, and notes of the previous examination report, dated as of December 31, 2005 and the subsequent response or action taken by the Company.

#### **Conflict of Interest Statements**

*Comment:* The Company was unable to provide copies of conflict of interest statements signed by its directors, officers or key employees for any of the years under the prior examination.

*Company Response:* The Company will ensure conflict of interest statements are completed on an annual basis by its directors, officers and key employees.

*Current Findings:* Conflict of interest statements were completed for each of the years in the current examination period.

#### **Corporate Records**

*Comment:* All actions by the sole shareholder and the Board of Directors are the result of Unanimous Written Consents. It was noted the Unanimous Written Consents did not properly reflect and approve all material corporate transactions and events of ALHIC.

*Company Response:* The Company will ensure all material transactions and events are approved by the shareholder and directors in a timely manner and such approvals are documented in the corporate minutes.

*Current Findings:* Approval of material transactions and events by the shareholder and directors was noted in the Consents relating to the current examination period.

## Service Agreement

*Comment:* The Company entered into a Service Agreement with three of its insurance affiliates effective November 1, 2006. Under the terms of the agreement, ALHIC paid commissions on behalf of the other parties to the agreement in connection with the sale of Medicare Private Fee For Service Plans. ALHIC was in turn reimbursed for the commissions paid on behalf of the other parties. The agreement was not filed for prior approval with the DIFP as required by Section 382.195 RSMo (Prohibited transactions, exceptions). The Company was directed to file a Form D filing for the agreement with the DIFP.

*Company Response:* The Company filed a Form D filing in accordance with Section 382.195 RSMo in September 2007.

*Current Findings:* The agreement was filed with the DIFP.

## Inactive Agreements

*Comment:* The majority of intercompany agreements in effect as of December 31, 2005 were inactive and no longer applied given ALHIC's status as a shell. In addition, given the changes in ownership, it did not appear that most, if any, of the intercompany agreements would become active if the Company's status was to change and it were to once again start writing new business. It was recommended the inactive intercompany agreements be formally terminated.

*Company Response:* The Company is reviewing its intercompany agreements to consider the possibility of formally terminating a portion of them.

*Current Findings:* The Company did not take any action to officially terminate the inactive agreements. However, this is no longer considered a concern due to the Company's subsequent merger into FHLHIC as described in the Subsequent Events section of this report.

## Settlement of Intercompany Accounts

*Comment:* Amounts due to affiliates as of December 31, 2005 had not been settled in 2006 nor had additional amounts incurred in 2006 been settled. It was recommended the Company ensure that intercompany accounts were settled on at least a quarterly basis.

*Company Response:* The Company has implemented a process to settle intercompany amounts on at least a quarterly basis.

*Current Findings:* It was noted that intercompany balances were not timely settled during the period under exam. However, this is no longer considered a concern due to the Company's subsequent merger into FHLHIC as described in the Subsequent Events section of this report.



## **Fidelity Bond**

*Comments:* The Company was a named insured with its ultimate parent and various other affiliates on a financial institutions bond providing coverage with a \$10 million limit. The bond also included a deductible of \$500,000. The deductible appeared excessive based on ALHIC's capital and surplus. It was recommended the Company either reduce the deductible amount to a more reasonable figure, or obtain written assurance from its ultimate parent that the current deductible amount would be covered by the ultimate parent in the event of a covered loss.

*Company Response:* As of November 2007, ALHIC is subject to a \$50,000 deductible for the fidelity bond which is insured with Hartford Fire Insurance Company.

*Current Findings:* The deductible on the fidelity bond coverage was reduced to \$50,000 which appeared appropriate given the Company's capital and surplus.

## **Accounting Records and Documentation**

*Comment:* Numerous delays were encountered by the DIFP examination staff in performing the examination. The Company was referred to Missouri Regulation 20 CSR 200-4.010 (Books, Records, Accounts and Vouchers) Section 3, which states "all financial books, records and accounts necessary for the Annual Statements of a Missouri insurer must be kept in a central location." The Company was also referred to Section 4, which states "the insurer shall provide within five (5) working days, any record requested by any duly appointed financial examiner of the director conducting an on-site financial examination." The Company should ensure that it complies with the requirements of 20 CSR 200-4.010 in future examinations.

*Company Response:* The Company will implement a process to insure compliance with the Missouri Regulations cited.

*Current Findings:* Delays were also encountered during the current examination of ALHIC and its affiliate CLIC. However, due to the limited amount of documentation requested for the examination of ALHIC, because of its status as a shell, the delays in obtaining information for ALHIC were not deemed significant.

## **HISTORY**

### **General**

ALHIC was incorporated under the stipulated premium laws in the State of Missouri on July 2, 1925 and commenced business on November 2, 1925. On October 21, 1968, the Company was converted to a legal reserve life insurance company under the provisions of Missouri Chapter 376 RSMo.

On December 25, 1985, an Agreement and Plan of Merger was approved by the DIFP whereby Creative Health Programs Administration, Inc. (CHP), a California corporation, became the parent of the Company. On April 30, 1987, the Company's name was changed from American Life and Accident Insurance Company of St. Louis to its current name.



Effective January 31, 1996, First Health Group Corporation (FHGC), formerly Health Care COMPARE Corporation, a Delaware corporation, purchased 100% of the stock of CHP effectively making FHGC the ultimate parent of ALHIC.

On May 31, 2001, ALHIC obtained approval from the DIFP and the California Department of Insurance for the merger of CHP and ALHIC. CHP was subsequently dissolved, and ALHIC became a wholly owned subsidiary of FHGC.

On December 8, 2004, Coventry Health Care, Inc. (CHC) obtained approval from the DIFP for the purchase of FHGC and all of its subsidiaries. Effective January 28, 2005, the purchase was completed and Coventry Health Care, Inc. became the ultimate parent of ALHIC.

### **Capital Stock**

As of December 31, 2007, the Company was wholly owned by the First Health Group Corporation. Pursuant to the Company's Articles of Incorporation, the Company is authorized to issue 146,500 shares of common stock with a par value of \$17.07. As of December 31, 2007, all 146,500 authorized shares were issued and outstanding for a total balance of \$2,500,755 in the Company's common capital stock account.

### **Dividends**

In November 2006, the Company obtained approval from the DIFP and paid an extraordinary dividend in the amount of \$3 million to FHGC. No other dividends were paid by the Company during the examination period.

### **Management and Control**

The management of the Company is vested in a Board of Directors appointed by its sole shareholder. The members of the Board of Directors elected and serving as of December 31, 2007 were as follows:

<u>Name and Address</u>	<u>Business Affiliation</u>
Thomas P. McDonough* Great Falls, Virginia	President Coventry Health Care, Inc.
James E. McGarry Plano, Texas	Executive Vice President and COO First Health Group Corporation
Shawn M. Guertin Poolesville, Maryland	Executive Vice President and CFO Coventry Health Care, Inc.
George K. Robinson III Silver Springs, Maryland	Executive Vice President Taxes Coventry Health Care, Inc.

John J. Stelben ** Brookeville, Maryland	Vice President Business Development Coventry Health Care, Inc.
Shirley Ann R. Smith Rockville, Maryland	Sr. Vice President, Corp. Counsel & Secretary Coventry Health Care, Inc.
Jonathan D. Weinberg Potomac, Maryland	Vice President & Managing Attorney Coventry Health Care, Inc.
Francis S. Soistman, Jr. Danestown, Maryland	Executive Vice President – Health Plan Operations Coventry Health Care, Inc.
John J. Ruhlmann Bethesda, Maryland	Vice President & Corp. Controller Coventry Health Care, Inc.

\* In June 2008, Thomas P. McDonough resigned and Francis S. Soistman, Jr. was appointed to replace Mr. McDonough as President of CIIC. John S. Lavelle was then appointed to the Board of Directors.

\*\* In July 2008, John J. Stelben resigned and was replaced by Thomas C. Zielinski.

Pursuant to Article IV of the Company's Bylaws, the officers of the Company shall be a President and Secretary, shall also include a Treasurer, Vice President(s), Assistant Secretary(s) and Assistant Treasurer(s). The officers serving as of December 31, 2007 were as follows:

Thomas P. McDonough***	President
John J. Ruhlmann	Controller
Arthur Lynch	Vice President
Karyn R. Glogowski	Vice President
Mary L. Baranowski	Vice President
Shirley Ann R. Smith	Secretary
Shawn M. Guertin	Treasurer
Jonathan D. Weinberg	Asst. Secretary
John J. Stelben	Asst. Treasurer
G. Kenneth Robinson III	Asst. Treasurer

\*\*\* In June 2008, Francis S. Soistman, Jr. was appointed to replace Thomas P. McDonough as President.

### **Conflict of Interest**

The Company has implemented a conflict of interest policy, which establishes procedures for the disclosure of any conflicts of interest that may exist. All officers and directors are required to complete a conflict of interest statement annually. Signed statements of officers and directors were reviewed for the examination period. No significant exceptions were disclosed.

**Corporate Records**

A review was performed of the Articles of Incorporation and Bylaws for the examination period. Neither the Articles of Incorporation nor the Bylaws were amended during the period under examination.

The shareholder and the Board of Directors did not have formal meetings during the examination period. All actions by the shareholder or the Board of Directors are the result of Unanimous Written Consents (Consents).

The Consents for the examination period were reviewed for proper approval of corporate transactions. In general, the Consents appear to properly reflect and approve the Company's major transactions and events for the period under examination.

**Acquisitions, Mergers and Major Corporate Events**

There were no acquisitions, mergers or major corporate events noted for the period under examination. However, Articles of Merger were filed by ALHIC subsequent to the examination period, on October 31, 2008. The Articles of Merger are discussed in detail in the Subsequent Events section of this report.

**Surplus Debentures**

As of December 31, 2007, American L&H did not have any surplus notes issued or outstanding.

**AFFILIATED COMPANIES****Holding Company, Subsidiaries and Affiliates**

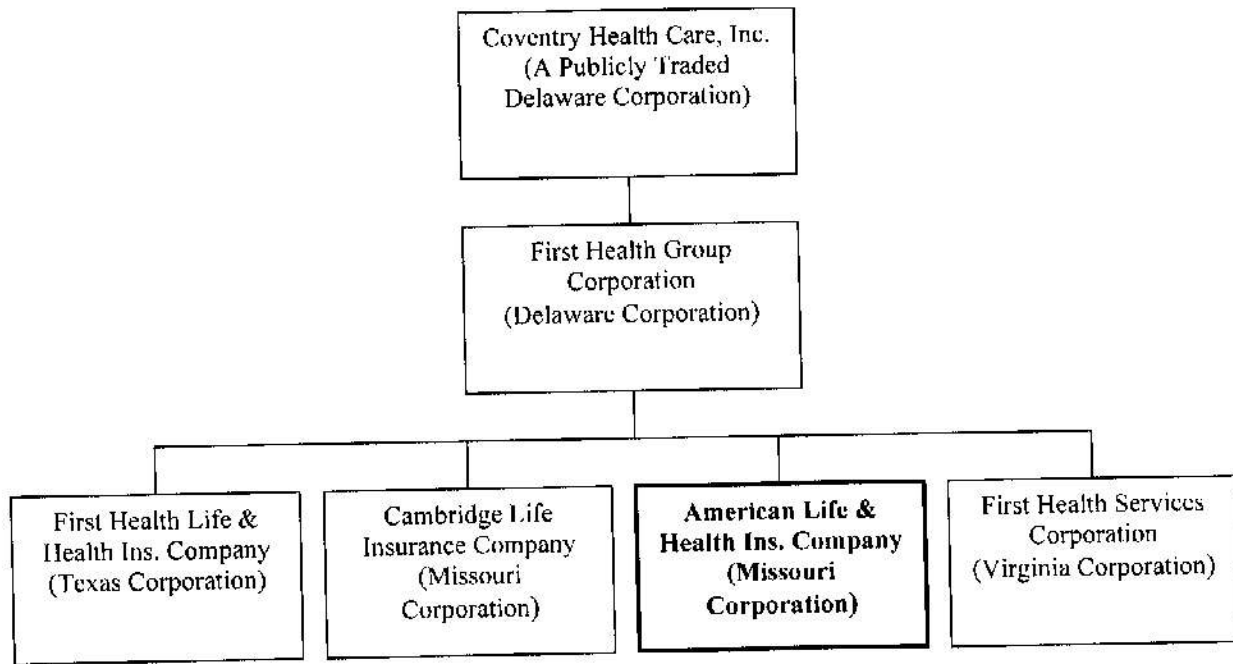
ALHIC is a member of an Insurance Holding Company System as defined by Section 382.010 RSMo (Definitions). ALHIC is a wholly owned subsidiary of First Health Group Corporation. FHGC in turn is a wholly owned subsidiary of Coventry Health Care, Inc., a Delaware corporation, and ultimate controlling entity within the holding company system.

Coventry Health Care, Inc. is a publicly traded national managed health care company located in Bethesda, Maryland that provides a full range of risk and fee-based managed care products and services. These products and services include health maintenance organizations, preferred provider organizations, point of service products, Medicare Advantage, Medicare Prescription Drug Plans, Medicaid, Workers' Compensation, and Network Rental to individuals, employer and government-funded groups, government agencies and other insurance carriers. As of December 31, 2007, CHC reported total assets of \$7.2 billion and total stockholders' equity of \$3.3 billion. No individual shareholder, directly or beneficially, owned 10% or more of the outstanding shares of CHC.

Insurance Holding Company System Registration Statements have been filed annually by CHC with the State of Missouri on behalf of ALHIC and its affiliate Cambridge Life Insurance Company during the examination period.

### **Organizational Chart**

The following organizational chart partially depicts the holding company system of ALHIC as of December 31, 2007. The partial list is depicted, as there are over fifty (50) companies within the CHC holding company system. All entities are 100% wholly owned unless otherwise indicated.



### **Intercompany Transactions**

ALHIC was a party to various intercompany agreements as of December 31, 2007. However, due to the Company's status as a shell, the majority of the intercompany agreements although still in place, were considered inactive. As no intercompany transactions occurred under the inactive agreements during the examination period and ALHIC was subsequently merged into FIILHIC as discussed in the Subsequent Events section of this report, the inactive agreements will not be summarized in this report. The intercompany agreements in effect as of December 31, 2007, which were considered active during the examination period were as follows:

1. Type: Agreement for Administrative and Financial Services and Overhead Allocation
- Parties: FHGC and ALHIC
- Effective: September 1998
- Terms: FHGC provides medical cost management, legal, administrative and financial services to ALHIC for a monthly fee of \$10,000. The contract allows for this fee to be waived annually by FHGC if the pre-tax income of ALHIC, prior to the \$120,000 annual fee, is less than \$240,000.

Although this agreement was considered active during the exam period, no fees were paid under the terms of the agreement as ALHIC's pre-tax income for the years under examination was less than \$240,000.

2. Type: Amended and Restated Tax Allocation Agreement
- Parties: Coventry Health Care, Inc. and various affiliates
- Effective: December 31, 2004
- Terms: CHC and ALHIC are part of an affiliated group, and the apportionment of earnings and profits will occur pursuant to Internal Revenue Code and Treasury Regulation requirements. The tax liability for each subsidiary which is a member of the affiliated group will be calculated as if it were to file a separate return. Amounts to be paid to CHC by ALHIC shall be paid at such time as necessary to permit CHC to make required estimated tax payments. In the event that CHC receives a recoverable from the Internal Revenue Service, CHC shall return such recoverable to ALHIC within 30 days of receipt.

There were no amounts paid under this agreement during the period under examination. Amounts accrued by ALHIC for income taxes payable to CHC were transferred to FHLHIC upon the subsequent merger of ALHIC into FHLHIC in 2008.

3. Type: Service Agreement
- Parties: FHLHIC, CLIC, Coventry Health and Life Insurance Company (CHLIC) and ALHIC
- Effective: November 1, 2006
- Terms: ALHIC shall pay commissions on behalf of CLIC, CHLIC and FHLHIC (Parties) in connection with the sale of Medicare PFFS Plans offered by the parties. ALHIC shall pay such commissions from funds provided by Parties, and shall have no liability or obligation to fund any agent commission. ALHIC shall pay such commissions in accordance with the terms and conditions of the agent agreements. Parties shall provide all necessary information related to agents and applicable commission amounts and fund the applicable ALHIC bank account for purpose of payment of the commissions. ALHIC shall receive a monthly fee of \$3,000 for the services provided. The fee shall be split pro rata among Parties such that each company's percentage shall equal the total amount of commissions in the month processed by ALHIC for such company divided by the total amount of commissions in the month processed.

The amounts paid to and (received from) parent and affiliates during the period under examination under the above agreements were as follows:

	<u>2007</u>	<u>2006</u>
Services Agreement		
Received from CLIC	\$ (135)	\$ (15)
Received from FHLHIC	(34,018)	(5,935)
Received from CHLIC	(1,754)	(50)
<b>Net amount paid or (received)</b>	<u><b>\$ (35,907)</b></u>	<u><b>\$ (6,000)</b></u>

### **FIDELITY BOND AND OTHER INSURANCE**

The Company is a named insured with its ultimate parent, Coventry Health Care, Inc. and various other affiliates on a financial institutions bond providing coverage with a \$10 million limit and deductible of \$50,000. The amount of coverage exceeds the suggested NAIC minimum coverage.

Since much of ALHIC's activities are carried out by affiliates, there are minimal additional insurance coverages provided to or needed by the Company. ALHIC is a named insured on the following insurance policies along with its ultimate parent, CHC and various other affiliates:

Commercial General Liability	Workers Compensation
Auto Liability	Managed Care Errors & Omissions
Excess Umbrella Liability	Property/Business Loss
Directors and Officers Liability	

### **PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

ALHIC does not have any employees. The personnel who perform the Company's operations are employees of the Company's ultimate parent, CHC or various other affiliates. A variety of standard benefits are provided to the employees of CHC including medical, dental, vision, life, accidental death and dismemberment coverage, long-term disability, tuition reimbursement and a 401(k) plan. The Company does not have a direct obligation for these benefits.

### **STATUTORY DEPOSITS**

#### **Deposits with the State of Missouri**

The funds on deposit with the DIFP as of December 31, 2007 were sufficient to meet the capital deposit requirements (\$600,000) for the State of Missouri in accordance with Section 376.290 RSMo (Deposit and transfer of securities). The funds on deposit as of December 31, 2007 were as follows:



<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
U.S. Treasury Note	\$ 1,170,000	\$ 1,200,668	\$ 1,176,726
Fannie Mae Bond	350,000	442,313	366,378
	<u>\$ 1,520,000</u>	<u>\$ 1,642,981</u>	<u>\$ 1,543,104</u>

### **Deposits with Other States**

The Company does not have funds on deposit with any other state.

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### **Territory and Plan of Operations**

ALHIC is licensed with the Missouri DIFP under RSMo Chapter 376 (Life Health and Accident Insurance). The Company was also licensed to transact the business of insurance in the States of California and Wisconsin.

From 2002 through 2004 ALHIC's parent, FHGC, was actively trying to sell the Company. As part of this process, ALHIC entered into separate assumption reinsurance agreements to cede off its various lines of business. These agreements are discussed in more detail in the Reinsurance section of this report. As a result of these agreements, as of December 31, 2007, ALHIC was essentially a shell with no active lines of business.

### **Policy Forms & Underwriting** **Advertising & Sales Material** **Treatment of Policyholders**

The DIFP has a market conduct staff, which performs a review of these issues and generates a separate market conduct report. However, the DIFP has not performed a market conduct examination of ALHIC. As the Company has not actively marketed or sold any products during the last few years, no review of any market conduct related areas of the Company was deemed necessary during the current examination.

## **REINSURANCE**

### **General**

The Company's reinsurance and premium activity for the examination period is detailed below:



	2007	2006
Direct premiums written	\$ 61,529	\$ 62,938
Reinsurance assumed	-	-
Reinsurance ceded	(61,529)	(62,938)
Net premiums written	\$ -	\$ -

**Assumed**

ALHIC did not assume any reinsurance during the period under examination.

**Ceded**

Prior to the current examination period, in anticipation of its possible sale, ALHIC terminated all previous ceding contracts and entered into coinsurance contracts with various reinsurers under which all ALHIC policies were reinsured on a 100% coinsurance basis. Included in each contract was a section stating that upon approval by the various state Departments of Insurance, and concurrence (where necessary) by the policyholders, all business was novated to the reinsurers.

As of December 31, 2007, all of the various coinsurance novations had been approved with the exception of an Assumption Reinsurance Agreement with North Carolina Mutual (NCM), wherein all ALHIC's individual life insurance policies were 100% coinsured. This contract is awaiting final approval from the State of California prior to entering into novation. The Company is contingently liable for these policies in the event NCM should fail to perform its obligations under the reinsurance agreement.

As a result of these contracts, as of December 31, 2007, ALHIC carried no liabilities on its balance sheet for policies written to date.

**ACCOUNTS AND RECORDS****Independent Auditor**

The Company's financial statements were audited by the Baltimore, Maryland office of the CPA firm of Ernst & Young, LLP, for both of the years in the examination period.

**Appointed Actuary**

Loss reserves of the Company were reviewed and certified by Tuvy Guss ASA, MAAA, an employee of Coventry Health Care, Inc., for both of the years in the examination period.

**FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2007. Any examination adjustments to the amounts reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements." (The failure of any column of numbers to add to its respective total is due to rounding or truncation).

There may have been differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial, concerning their effect on the financial statements. Therefore they were communicated to the Company and/or noted in the workpapers for each individual Annual Statement item.

**Assets**

	Ledger and Non-Ledger Assets	Assets Not Admitted	Net Admitted Assets
Bonds	\$ 5,103,854	\$ -	\$ 5,103,854
Cash, cash equivalents and short-term investments	1,476,552	-	1,476,552
Investment income due and accrued	86,733	-	86,733
Other amounts receivable under reinsurance contracts	48,987	48,987	-
Net deferred tax asset	28,975	28,975	-
Health care and other amounts receivable	4,145	-	4,145
Total Assets	<u>\$ 6,749,246</u>	<u>\$ 77,962</u>	<u>\$ 6,671,284</u>

**Liabilities, Surplus and Other Funds**

Interest maintenance reserve	\$ 73,052
General expenses	37,930
Taxes, licenses and fees due or accrued excluding federal income taxes	35,353
Current federal and foreign income taxes	17,745
Asset valuation reserve	15,595
Payable to parent, subsidiaries and affiliates	978,249
Aggregate write-ins for liabilities: abandoned property	137,045
Total liabilities	<u>\$ 1,294,969</u>
Common capital stock	\$ 2,500,755
Gross paid in and contributed surplus	2,674,385
Unassigned funds (surplus)	201,175
Total Capital and Surplus	<u>\$ 5,376,315</u>
Total Liabilities and Capital and Surplus	<u>\$ 6,671,284</u>

**Summary of Operations**

Net investment income	\$ 312,842	
Amortization of interest maintenance reserve	8,841	
Aggregate write-ins for miscellaneous income	<u>61,623</u>	
Total revenues		\$ 383,306
General insurance expenses	\$ 2,626	
Insurance taxes, licenses and fees, excluding federal income taxes	<u>33,347</u>	
Total underwriting deductions		<u>\$ 35,973</u>
Net gain from operations before dividends to policyholders and federal income taxes		\$ 347,333
Federal income taxes incurred		<u>104,032</u>
Net Income		<u><u>\$ 243,301</u></u>

**Capital and Surplus Account**

Capital and surplus, December 31, 2006		\$ 5,175,140
Net income	\$ 243,301	
Change in net deferred income tax	(16,652)	
Change in nonadmitted assets	(32,345)	
Change in asset valuation reserve	<u>6,871</u>	
Net change in capital and surplus for the year		<u>201,175</u>
Capital and surplus, December 31, 2007		<u><u>5,376,315</u></u>

**NOTES TO THE FINANCIAL STATEMENTS**

--None--

**EXAMINATION CHANGES**

--None--

**GENERAL COMMENTS AND/OR RECOMMENDATIONS**

--None--

**SUBSEQUENT EVENTS**

On October 31, 2008, ALHIC filed Articles of Merger with the DIFP. Under the Articles of Merger, ALHIC would merge into and with First Health Life and Health Insurance Company with FHLHIC being the surviving corporation. The Articles of Merger were non-disapproved by the DIFP on November 7, 2008. The merger became effective December 31, 2008, and as a result, ALHIC ceased to exist as a legal entity.

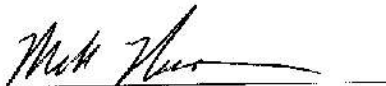
# ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of American Life and Health Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Leslie Nehring, CPA, CFE, and Alvin Garon, CFE examiners for the Missouri Department of Insurance, Financial Institutions and Professional Registration, participated in this examination.

# VERIFICATION

State of Missouri     )  
                                       )  
 County of Jackson    )

I, Mark Nance, CPA, CFE, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.



Mark Nance, CPA, CFE  
 Examiner-In-Charge  
 Missouri Department of Insurance,  
 Financial Institutions and Professional Registration

Sworn to and subscribed before me this 26<sup>th</sup> day of March, 2009.

My commission expires:

March 10, 2013

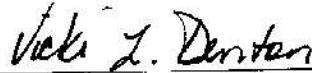
Notary Public



MONICA J. CURLS  
 My Commission Expires  
 March 10, 2013  
 Jackson County  
 Commission #096797968

### **SUPERVISION**

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.



Vicki L. Denton, CFE  
Audit Manager  
Missouri Department of Insurance,  
Financial Institutions and Professional Registration